11 January 2023

ECONOMIC REVIEW | **November 2022 Industrial Production Index**

IPI Expanded Better than Expected at in Nov-22

- *IPI growth unexpectedly strengthened to +4.8%yoy in Nov-22. Malaysia's IPI growth strengthened marginally and stabilized at +4.8%yoy in Nov-22 (Oct-22: +4.6%yoy), beating market expectations and was supported by stronger manufacturing output and rebound in electricity generation.*
- *Manufacturing sales maintained double-digit growth. Manufacturing sales still sustained double-digit growth Nov-22 for 15th straight month, albeit moderated further to +11.8%yoy (Oct-22: +12.9%yoy). The continued growth was supported by stronger growth in sales of E&E components, motor vehicles and refined petroleum.*
- *IPI growth to ease to 3.5% in 2023 from +7% in 2022. Given the better-than-expected growth in Nov-22, IPI grew at +7.3%yoy in the first 11 months last year. As a result, IPI will likely grow at +7% for the whole of 2022 (2021: +7.2%), better than our projection of +6%. Going into 2023, we project IPI to grow at more moderate pace of +3.5% in 2023 taking into account the expected moderation in external demand and absence of low-base effect.*

IPI growth unexpectedly strengthened to +4.8%yoy in Nov-22. Malaysia's IPI growth strengthened marginally and stabilized at +4.8%yoy in Nov-22 (Oct-22: +4.6%yoy), beating market's and our expectations. It was the 15th straight month of expansion since recovering from the nationwide lockdown in 2021. IPI growth in Nov-22 was supported by stronger manufacturing output (+4.8%yoy; Oct-22: +4.2%yoy) and rebound in electricity generation (+1.2%yoy; Oct-22: -1%yoy). Higher production of E&E products, motor vehicles, machinery & equipment, and food products contributed to the stronger manufacturing IPI. Mining output also grew during the month with increased output of crude petroleum and natural gas, but the pace of growth in mining IPI moderated to +6.1%yoy due to higher base. The better-than-expected IPI growth in Nov-22 closely tracked the sustainable exports which also strengthened on stronger external demand from major countries like China, US and Europe, particularly driven by higher exports of E&E products. The sustained IPI growth also reflects the positive effect on business activity from economic reopening as well as improvement in supply conditions.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Aug-22	Sep-22	Oct-22	Nov-22	Aug-22	Sep-22	Oct-22	Nov-22
IPI	1.6	0.7	(3.7)	2.7	13.5	10.8	4.6	4.8
Mining	0.2	6.3	(6.0)	(2.1)	8.0	15.0	8.6	6.1
Manufacturing	4.3	(0.5)	(3.1)	3.4	15.2	10.4	4.2	4.8
Electricity	0.0	(1.1)	(0.1)	1.0	9.9	4.1	(1.0)	1.2

*MoM is seasonally adjusted
Source: Macrobond, DOSM, MIDFR

IPI rebounded +2.7%mom from weaker production in Oct-22. Based on seasonally-adjusted data, industrial production in Malaysia rebounded to grow +2.7%mom (Oct-22: -3.7%mom) from prior month, mainly reflective of the rebound in manufacturing and electricity output. Despite concerns over slowing external demand, we believe firms increased production to fulfil backlog of orders. At the same time, cost pressures have eased as

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improved global supply chain and correction commodity prices translated into slower rise in input prices. Overall, the monthly increase in manufacturing output (+3.4%Mom) indicates Malaysia continued to benefit from sustained rise in trade activity and expanding domestic demand. Meanwhile, higher electricity output (+1%mom) reflects increased energy consumption during the month, also in line with higher manufacturing production. Mining output, on the other hand, fell -2.1%mom, which we believe had been impacted by unexpected disruptions. Adverse weather condition, including floods, likely affected production activities in the final month of 2022. As demand is expected to slow particularly from overseas markets, we anticipate IPI growth will moderate and constrain going into 2023.

Table 2: Changes in IPI Major Industries (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
IPI	**4.1**	**12.1**	**12.5**	**13.5**	**10.8**	**4.6**	**4.8**
Mining	**(4.9)**	**2.1**	**3.2**	**8.0**	**15.0**	**8.6**	**6.1**
Crude Petroleum	(6.7)	(2.4)	(8.6)	8.0	7.2	4.8	3.1
Natural Gas	(3.6)	5.5	12.6	8.0	21.0	11.4	8.2
Manufacturing	**6.9**	**14.4**	**14.9**	**15.2**	**10.4**	**4.2**	**4.8**
Food Products	4.2	0.1	5.2	7.6	3.7	3.6	4.9
Refined Petroleum Products	2.0	11.0	5.7	12.8	15.4	10.6	1.6
Chemicals & Chemicals Products	8.2	2.2	4.0	4.6	4.2	0.2	4.9
Rubber Products	(23.0)	(23.9)	(17.5)	(10.6)	(8.6)	(8.4)	(9.0)
Basic Metals	7.9	18.9	22.0	11.4	1.3	1.8	1.4
Electrical & Electronic Products	15.6	16.9	17.3	19.6	15.5	8.7	12.1
Computers & Peripheral Equipment	6.0	9.8	8.9	11.8	9.8	(7.4)	(2.6)
Machinery & Equipment	2.5	6.9	15.8	14.6	12.9	0.4	4.3
Motor Vehicles, Trailers & Semi-Trailers	14.4	179.3	129.9	107.1	35.6	(5.7)	9.4
Electricity	**2.8**	**15.4**	**13.2**	**9.9**	**4.1**	**(1.0)**	**1.2**

Source: Macrobond, MIDFR

Table 3: Changes in IPI for Export-Oriented Industries (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
IPI: Export-Oriented Industries	**6.1**	**7.8**	**9.5**	**12.4**	**10.1**	**5.0**	**5.1**
Computer, Electronic Products and Optical	18.9	19.4	18.4	21.5	16.7	10.3	14.1
Electrical Equipment	8.9	9.7	10.9	10.6	9.5	4.5	3.8
Chemicals and Chemical Products	8.2	2.2	4.0	4.6	4.2	0.2	4.9
Coke and Refined Petroleum Products	2.0	11.0	5.7	12.8	15.4	10.6	1.6
Vegetable & animal oils & fats	(6.7)	(12.5)	(2.3)	5.0	(2.7)	(1.4)	0.6
Textiles	3.5	3.7	10.7	9.7	5.5	1.3	(3.5)
Wearing Apparel	5.3	6.9	9.8	2.5	0.4	(8.1)	0.3
Wood and Wood Products	9.5	17.7	42.4	13.1	7.3	0.1	(11.6)
Furniture	9.6	24.6	52.2	40.9	10.5	(6.7)	(7.3)
Rubber Products	(23.0)	(23.9)	(17.5)	(10.6)	(8.6)	(8.4)	(9.0)

Source: DOSM, MIDFR

Production continued to grow in both export- and domestic-oriented sectors. Sustained growth was recorded in IPI for the export-oriented sectors, mainly attributable to higher output of E&E and chemicals &

chemical products. Meanwhile, production in the domestic-oriented sector recorded stronger growth of +4.3%yoy (Oct-22: +2.5%yoy), driven by output of consumer products such as motor vehicles, foods, beverages, and tobacco. This shows companies continued to increase production as domestic demand remained strong. Production of construction goods, on the other hand, moderated further. We expect domestic-oriented sectors to continue growing, underpinned by growing domestic spending and continued expansion in local business activities. Export-oriented, on the hand, could experience weaker growth in 2023 in anticipation of weaker growth in external demand.

Table 4: Changes in IPI for Domestic-Oriented Industries (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
IPI: Domestic-Oriented Industries	**8.8**	**35.5**	**30.9**	**22.5**	**11.2**	**2.5**	**4.3**
Construction (CO)	5.2	25.1	23.9	13.6	6.4	3.0	1.1
CO: Non Metallic Mineral	6.1	32.2	34.7	16.7	10.1	3.5	0.1
CO: Iron and Steel	7.9	18.9	22.0	11.4	1.3	1.8	1.4
CO: Fabricated Metal	3.0	24.7	18.2	13.0	7.3	3.5	1.6
Consumer (CS)	10.7	41.5	34.9	27.8	14.1	2.1	6.3
CS: Food Products	11.4	9.8	10.2	9.2	8.4	7.8	8.1
CS: Motor Vehicles, Trailers and Semi-Trailers	14.4	179.2	129.9	107.1	35.6	(5.7)	9.4
CS: Other Transport Equipment	9.6	15.0	22.1	6.5	7.6	12.1	2.9
CS: Beverages	9.9	59.9	50.9	14.9	11.8	1.1	5.4
CS: Tobacco Products	4.6	2,763.5	2,699.2	2,813.6	30.0	(28.1)	1.6
CS: Paper and Paper Products	7.4	10.5	14.0	12.2	9.9	2.5	0.3
CS: Others	10.8	41.0	46.7	21.3	3.1	0.4	5.4

Source: DOSM, MIDFR

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
Manufacturing Sales	**2.7**	**1.8**	**0.2**	**19.5**	**12.9**	**11.8**
Seasonally-adjusted month-on-month change (%)	*0.6*	*(3.0)*	*2.0*	-	-	-
Refined Petroleum Products	(2.7)	(2.1)	(4.8)	60.6	56.0	32.1
Chemicals and Chemical Products	(5.8)	(4.2)	6.6	8.1	2.4	5.3
Rubber Gloves	4.0	2.1	(5.2)	(16.3)	(5.3)	(9.9)
Iron & Steel Products	19.4	(1.3)	0.7	(0.8)	(0.4)	2.0
Diodes, Transistor & Electronic Integrated Circuits Mic	8.4	(3.8)	(7.6)	42.2	30.0	23.4
Electrical Capacitor Resistor, Circuit Board & Display Comp	16.2	(11.5)	5.1	21.4	30.8	42.6
Computers & Peripherals Equipment	(32.8)	47.0	(8.3)	20.8	(7.3)	(1.3)
Consumer Electronics	10.5	(13.9)	5.2	13.8	(8.5)	(5.3)
Motor Vehicles	18.1	7.0	30.7	11.5	(7.6)	10.5

Source: Macrobond, DOSM, MIDFR

Manufacturing sales maintained double-digit growth. Manufacturing sales still sustained double-digit growth Nov-22 for 15th straight month, albeit moderated further to +11.8%yoy (Oct-22: +12.9%yoy). The

continued growth was supported by stronger growth in sales of E&E components, motor vehicles and continued growth in refined petroleum products. This offset the continued fall in computers & peripheral equipment, rubber gloves and consumer electronics. On month-on-month basis, manufacturing sales rebounded +2%mom after adjusting to seasonal difference, on the back of increased demand for E&E products, motor vehicles, chemicals & chemical products, and iron & steel. Going forward, we maintain our anticipation that manufacturing sales will continue to grow on the back of easing supply constraints and sustained expansion in domestic spending.

Global production weakened further in Nov-22. Industrial production in most countries weakened or even contracted in Nov-22 as global manufacturing activities deteriorated with continued drop in global manufacturing PMI to 48.8 (Oct-22: 49.4). This marks deeper decline in global manufacturing sector since recovering from the global pandemic; with manufacturers already slowing down their production and purchases of materials in view of softer demand. Most countries that we monitor reported negative IPI growth in Nov-22, even sharper decline for regional countries i.e. Thailand, Singapore, South Korea, and Taiwan. We expect the weaker activities to continue in Dec-22 as external demand will remain weak tracking the slower growth for the global economy. In fact, global manufacturing PMI fell further to 48.6, signalling even sharper contraction, in Dec-22. However, PMI reports for many countries indicated easing price pressures and some improvement in manufacturers' sentiment which can be attributed to signs of stabilization in output and better outlook (as China reopens its economy).

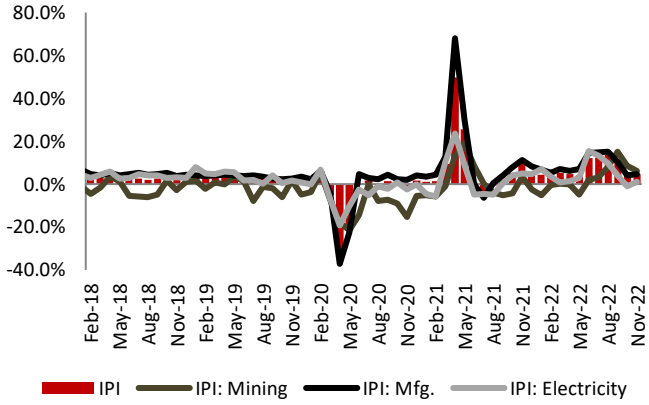
Table 6: IPI for Selected Economies (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Malaysia	4.1	12.1	12.5	13.6	10.8	4.6	4.8
Philippines	8.0	8.3	10.6	11.8	12.0	13.0	12.7
Thailand	(2.0)	(0.2)	6.4	14.9	3.3	(3.9)	(5.6)
Singapore	10.8	3.1	1.6	0.8	1.8	(0.9)	(3.2)
S. Korea	7.4	1.3	1.5	1.5	0.6	(1.2)	(3.7)
Taiwan	4.1	0.5	1.6	3.3	(4.5)	(4.3)	(4.9)
India	19.7	12.6	2.2	(0.7)	3.5	(4.0)	n.a.
Japan	(3.1)	(2.8)	(2.0)	5.8	9.6	3.0	(1.3)
Euro area	1.6	2.2	(2.5)	2.6	5.1	3.4	n.a.
USA	4.4	3.7	3.6	3.5	5.0	3.3	2.5

*n.a.: not available
Source: Macrobond, MIDFR

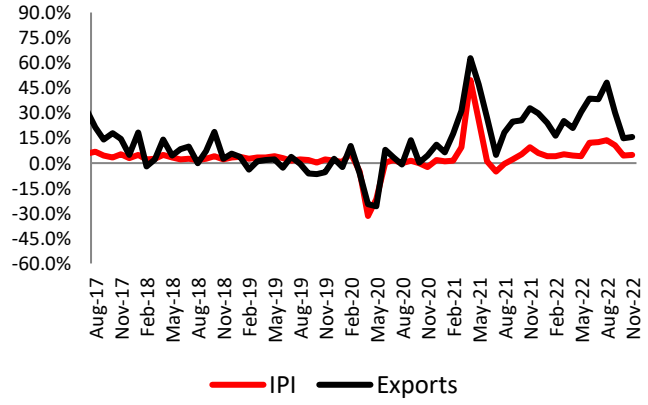
IPI growth to ease to 3.5% in 2023 from +7% in 2022. Given the better-than-expected growth in Nov-22, IPI grew at +7.3%yoy in the first 11 months last year. As a result, IPI will likely grow at +7% for the whole of last year, better than our projection of +6%. Going into 2023, we project IPI to grow at more moderate pace of +3.5% in 2023 taking into account the expected moderation in external demand as well as absence of low-base effect, which previously boosted IPI growth to double-digit growth particularly in June-September last year. Increased demand, mainly from expansion in domestic spending, will be key factor to support IPI growth this year. We foresee that production will also increase facilitated by improved supply conditions, which include easing cost inflation and better supply of foreign workers. However, we remain cautious that several risks could still constrain IPI growth, such as sharp fall in external demand, elevated inflation, and renewed supply disruptions.

Chart 1: IPI Performance by Sector (YoY%)



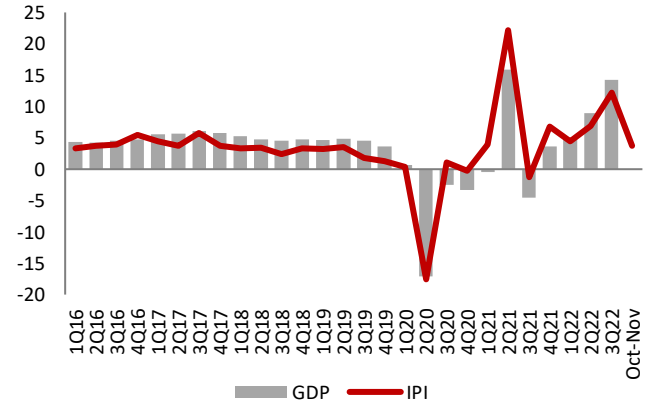
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



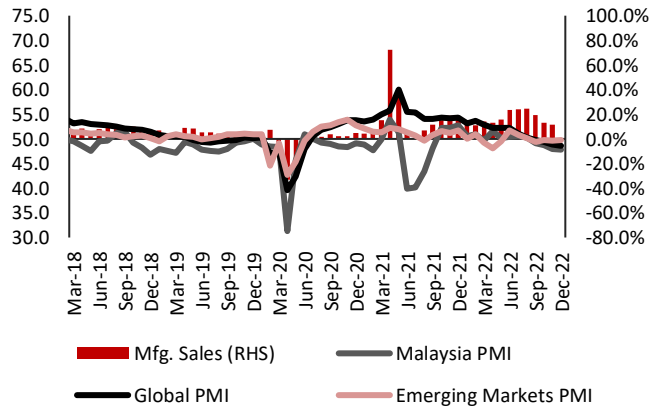
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



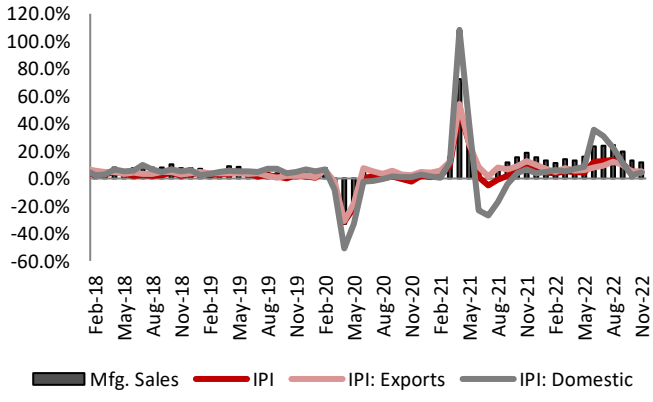
Source: Macrobond, MIDFR

Chart 4: Mfg. Sales (YoY%) vs PMI (Points)



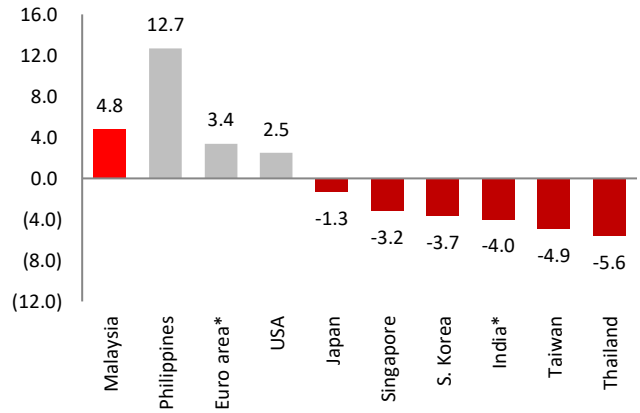
Source: Macrobond, Bloomberg, MIDFR

Chart 5: IPI & Mfg. Sales (YoY%)



Source: Macrobond, DOSM, MIDFR

Chart 6: Global IPI in Nov-22 (YoY%)



* refers to latest available data for Oct-22
Source: Macrobond, MIDFR

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